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SUMMARY

¶1. (SBU) At the April 19-20, 2007 meeting of the Paris Club, creditors provided debt relief to the Central African Republic in recognition of its eligibility for the Heavily Indebted Poor Country

(HIPC) Initiative and to facilitate the newly signed Poverty Reduction and Growth Facility (PRGF) with the IMF. The Secretariat reported on a paper that Argentina shared with only a few countries. In it, Argentina laid out why it did not want to use reserves to pay its Paris Club debt, and examined various scenarios for normalizing relations. There was interest in exploring those options that Argentina had described as undesirable - paying arrears in one to two years by borrowing either reserves or on the markets. Creditors reaffirmed their commitment to solidarity, though the Netherlands and Germany expressed desire for a resolution soon. On Iraq, the Secretariat reported its view that the Allegro/Aquila program for securitizing non-Paris Club claims did not violate comparability. There was some discussion of the German post-1990 claims; based on Germany's presentation, the Secretariat opined that the issue was one of blocked transfers, not debt, and therefore not covered by the Agreed Minute. On Peru, creditors were generally receptive to Peru's prepayment offer, and the Secretariat will invite Peru to negotiate next month. Other countries on the agenda were Afghanistan, Angola, Comoros, DRC, Gabon, Gambia, Kenya, Libya, North Korea, Pakistan, Russia, Sao Tome and Principe, Serbia, Montenegro, Kosovo, the Seychelles, and Suriname. END SUMMARY.

Afghanistan

¶2. (U) The IMF reported that Afghanistan is still expected to reach Decision Point for additional debt relief under the Heavily Indebted Poor Country (HIPC) initiative in early July. An IMF mission will conduct its second review of Afghanistan's program in the next week.

At Completion Point of its HIPC agreement, Afghanistan would be eligible for USD 435 million in bilateral debt relief, USD 375 million of which would be from Russia. Multilateral debt forgiveness would total USD 125 million; the IMF's own share would be USD 15 million and the World Bank's USD 75 million in net-present-value (NPV) terms. Germany and the U.S. reported having signed their bilateral agreements, while Russia reported it had sent another draft to the Afghans on April 11, with some minor responses to Afghanistan's comments. (We later confirmed that Kabul had indeed received the document and is reviewing it).

Angola

¶3. (SBU) The Secretariat summarized the recent data call, noting that Angola's arrears were USD 150 million at the end of January (excluding late interest). Since then Angola paid almost USD 120 million - USD 83 million for arrears and USD 36 million in excess of arrears amounts (excluding late interest). Angola has asked the excess amounts be returned. Two creditors still reported arrears - Sweden (USD 15 million) and the Netherlands (USD 52 million). (Switzerland reported receiving an additional USD 3 million arrears the day of the meeting.) Countries receiving excess payments were Norway (less than USD 1 million), Italy (USD 16 million), the UK (USD 20 million), and the U.S. (USD 3 million). (Note: The United States already returned last month an overpayment of USD 49 million.) There was general consensus that these payment problems resulted from internal management difficulties rather than any design by Angola.

¶4. (SBU) The UK stated that it had not repaid the excess because it was still owed late interest. The Secretariat asked the UK to reconsider this position, since it raised comparability issues. The UK replied that it was seeking legal advice. Italy said it was planning to return its overpayment, despite being owed late interest. Norway indicated that it was unsure. (This is not an issue for the U.S., since we are owed no late interest). Italy also reported that Angolan Finance Minister de Morais indicated to its ambassador that Angola might be able to settle the late interest charges without requesting a reduction. The Secretariat asked

creditors not to negotiate the late interest question bilaterally,

stating it should be discussed in the Club, as indicated in the Secretariat's recent letter to Angola.

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Argentina

¶5. (SBU) The Secretariat reported on its meeting with Finance Minister Miceli during the IMF/World Bank Spring Meetings. PC Chairman Musca delivered the standing message that a PC restructuring would require a Fund program, and that if Argentina was unwilling to pursue a program, paying its arrears as quickly as possible would be central to normalizing relations with PC creditors. Miceli in turn had raised the prospect of using the Article IV review process as a basis for a Paris Club treatment and again underscored that Argentina would not use its reserves.

¶6. (SBU) Miceli had also provided France and Germany (but not the Secretariat) with the same lengthy position paper that Argentina had

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given U.S. Treasury Department officials on the margins of the Inter-American Development Bank meeting. France briefed other creditors, most of whom had not received the paper, on the general arguments made by the Argentines. The paper claims that Argentina cannot use its arrears for both legal and economic reasons, and proposes a nine-year rescheduling arrangement as a means to normalize relations with Paris Club creditors. France observed that Argentina could get around the legal problems if it wished to do so, and that it would be unwise for the Club to attempt to assess payment capacity or conditionality - tasks better left to the IMF. It also noted the alternative scenarios at the end of the Argentine paper, which discussed repayment over one to two years by borrowing from reserves or the markets. While the paper argued against this approach as detrimental to Argentina's economic health, France observed that it was now "on the table" for further discussion.

¶7. (SBU) Germany supported the Secretariat's position, but wanted a solution soon. The Netherlands urged flexibility, noting that time was passing. The U.S. summarized recent bilateral meetings and its continued support for the consensus approach. Japan asked the Secretariat to urge Argentina to put forth an official proposal and

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keep talks focused only on technical issues. Japan also asked Club members to remain united and not reopen export credits. Creditors expressed considerable interest in the Argentine paper, especially regarding the alternative scenarios as a basis of discussion. The Secretariat agreed to ask Argentina for permission to share it with

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the entire Club.

Central African Republic

¶8. (U) Paris Club creditors provide CAR, a HIPC-eligible country, with Naples-terms debt treatment: 67% reduction of all pre-cutoff-date non-concessional debt arrears and payments coming due during the scheduled period of its Poverty Reduction and Growth Facility (PRGF) reform program, as well as generous rescheduling of all other arrears and flows. The Secretariat presented an analysis that showed no capacity to pay. On this basis, as well as the very fragile picture of CAR's economic situation drawn by the World Bank and IMF representatives, creditors agreed to several extraordinary treatment elements: full capitalization of moratorium interest and deferred arrears payments on both post cut-off official development assistance (ODA) and short term debts, held by Japan and France respectively.

¶9. (U) The U.S. delegation asked about reports that CAR was planning a USD 92 million bond issue and other delegations echoed similar concerns about non-programmed borrowing. The IMF mission

chief confirmed that such a bond issuance was not part of the program. The Secretariat reported that it had raised this with the Finance Minister who acknowledged PC creditors' concerns and reported that no decisions had been made. The Secretariat and several creditors also raised concerns about CAR's ability to obtain comparable treatment from non-Paris Club creditors given their larger share of CAR's debt. The largest of these creditors are China (USD 130 million), the former Yugoslavia (USD 31 million), Argentina (USD 25 million) and Kuwait (USD 20 million).

Comoros

¶10. (U) Comoros is a HIPC-eligible country. The IMF requested and received financing assurances for its upcoming PRGF, expected to reach the Board in June. The Fund reported that despite a few slippages, progress had been satisfactory under a staff monitored program. The major obstacle to moving forward was USD 31 million in arrears to the African Development Bank (AfDB). (The U.S. is not a creditor).

Democratic Republic of Congo

¶11. (SBU) The Secretariat reported on its meeting with the new DRC Finance Minister who requested an immediate rescheduling and continuation of a "payments moratorium." The Secretariat told him that the Club wished to normalize relations as quickly as possible, but would require approval of a new PRGF. The Secretariat then noted that creditors were "allowed" to bill in the meantime, but asked them not to apply this strictly if possible. (The U.S. is legally required to bill.) The IMF reported on the country's weak economic performance, although it did indicate that reserves had risen from less than USD 100 million in February to over USD 150 million in early April, due to the receipt of oil payments. The IMF will field an Article IV mission in May, which could lay the groundwork for a new PRGF. This could be adopted in mid-year, at the earliest. Under the best-case scenario, DRC would be eligible for Completion Point debt relief under the HIPC initiative in early
¶2008.

Gabon

¶12. (SBU) Following up on Gabon's February 2007 letter to the Paris Club requesting treatment of its debt, the Secretariat reported it had informed the Gabonese authorities of the Club's position. Gabon could seek a possible debt treatment under the Evian approach if a Debt Sustainability Analysis indicated a need (which seems unlikely), or could consider early repayment within the Club's rules. Gabon had not yet responded. The IMF confirmed that Gabon had met all prior conditions for a Stand-By Arrangement (SBA), allowing for a Board discussion in early May. In the absence of

further clarification by Gabon of what it wanted from the Club, creditors did not discuss the buyback vs. prepayment options, or the amount and appropriateness of any repayment discount.

The Gambia

¶13. (SBU) Norway thanked the IMF for opening a dialogue with The Gambian authorities. Since it had not started billing when The Gambia went off track during its HIPC interim relief, Norway was prepared to treat all arrears as "technical" in order to facilitate the Completion Point treatment. Creditors agreed with Norway that this could be done through a written (email) process, rather than face-to-face in Paris. (The U.S. is not a creditor.)

Iraq

¶14. (SBU) The Secretariat and IMF both took note of the upcoming Compact and of recent developments with non-PC creditors, including a briefing by JPMorgan and Citigroup on the Aguila/Allegro program for securitizing claims. The Secretariat observed that non-PC creditors were free to sell their remaining obligations after comparable treatment, and argued forcefully that the program met comparability concerns and could help accelerate the settlement of these claims. The U.S. delegation welcomed and agreed with this assessment.

¶15. (SBU) The U.S. thanked Germany for its written explanation for excluding a post-1990 debt from the scope of the Agreed Minute on Iraq and requested the Secretariat's assessment of the facts as Germany had presented them. The Secretariat shared its view that this was a transfer issue, not one of debt, since the monies paid by Iraqi companies had been paid into a Central Bank account in the German company's name. The U.S. and U.K. delegations expressed a coordinated view that if the Club were indeed to consider this a transfer not subject to the Agreed Minute, it needed to make very clear why this was the case in order to avoid creditors seeking to exclude other claims arbitrarily. (Note: We have referred the issue back to Iraq's legal advisors for their views and confirmation of

Germany's presentation of the facts.)

¶16. (SBU) Russia again reported no progress on its bilateral agreement with Iraq. In later private discussion, the Russian delegation denied any explicit linkage between debt relief and oil contracts, but raised concerns that the draft Iraqi oil law would not treat Russian companies fairly. The Russians also indicated that the Finance Ministry could do nothing further to secure approval to sign the bilateral agreement (which they claim is technically ready), and advised us to consult higher-level officials or to speak to ministries in Russia that deal with oil issues.

Kenya

¶17. (SBU) The IMF reported on Kenya's completion of the long-delayed second review of its PRGF. Creditors agreed with the Secretariat's proposal to implement the third phase of Kenya's 2004

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debt treatment and approved a draft notification letter. In response to concerns raised by Japan regarding justification for the Club's retrospective entry into force of debt relief, the Secretariat noted that by previously allowing Kenya additional time

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to meet its reform commitments and not formally closing the third phase, the Club was now obliged to fulfill its side of the agreement. But the Secretariat conceded that the decision to provide Kenya time outside the normal consolidation period was unusual and discretionary.

Libya

¶18. (SBU) Russia requested Libya be placed on the agenda because of difficulties resolving significant arrears and interest in the experience of other creditors. The Netherlands, Denmark, Sweden, and Switzerland reported modest arrears and problems dealing with the Libyan authorities. The Secretariat offered its view that the best way to approach this situation would be through an initial Club discussion of the most effective methodology for resolving debts for countries with no foreseeable prospects of a Paris Club treatment. Creditors agreed with this (especially as it affects other debtor

countries, including Suriname) and the Secretariat promised to update its 2002 paper on "Away from Paris Club countries" before putting it on the agenda at a later date. (The U.S. is not a

creditor.)

North Korea

¶19. (SBU) Russia reported on recently completed inter-governmental meetings on trade and the economy with North Korea. Since the DPRK did not appear to want to discuss debt, Russia said it had not raised the issue. Russia expects these meetings to continue, perhaps as frequently as twice per year, but does not anticipate addressing debt until bilateral relations are more advanced.

Pakistan

¶20. (SBU) Russia had requested that Pakistan be placed on the agenda. The IMF and World Bank gave a fairly optimistic report on macroeconomic conditions, although the Bank warned that social indicators remained some of the worst in the world. Russia indicated that it had signed its bilateral in 2005, covering a total of USD 129 million, and that it had about USD 100,000 in arrears, which it attributed to a misunderstanding. It then raised the issue of some USD 150-160 million that had accrued from trade deals with the former USSR and were now frozen in the Pakistani central bank due to USD 18 million in counter claims by Pakistani companies. Russia said it intended to raise this problem within the IMF and simply wanted to keep PC members informed.

Peru

¶21. (SBU) The Secretariat reported having discussed three subjects with Peru - (1) whether it wanted to extend the mechanism of the 2005 agreement for the new prepayment, which would allow Peru to limit the amount it prepays, (2) whether it wished to reopen the 2005 offer on maturities due through 2010, and (3) the interest by some creditors in a market value buyback rather than prepayment. The Peruvians replied that they did indeed want to have the ability to limit the offer, the exact parameters of which would depend on

how much they could raise in the markets. They also said they were ready to reopen the 2005 offer, but did not want to consider a market-value buyback.

¶22. (SBU) Most creditors joined the U.S. in voicing a willingness to accept the prepayment offer. Spain asked for clarification on which operation would execute first given its financing limitations, the 2010-2015 maturities or those before 2010 that were left over from the 2005 prepayment. The Secretariat agreed that this could be an important issue and promised to check on it. Italy noted that its credits were at fixed interest rates, making participation in a prepayment at par economically unattractive. For political reasons, however, it may participate. France noted it too would prefer a market-rate buyback, but was not inclined to block a consensus. The Secretariat will invite Peru to negotiate at the May meeting

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Russia

¶23. (SBU) Russia explained its written request to the Secretariat for the return of promissory notes and bills of exchange that had been cancelled as a result of its prepayment operations. It named twelve countries that it believed held such paper (the U.S. was not included). Creditors questioned the utility of resurrecting documents that would be difficult and costly to find since the prepayment agreements served to cancel them. Russia countered that while the contracts themselves had been cancelled, the notes and bills were separate instruments issued to back them up. If they fell into the wrong hands, Russia might have to defend itself in court, although it would undoubtedly win. Russia noted that the Netherlands had returned a dozen notes. The Secretariat asked all parties to look at options for addressing Russia's legitimate concerns.

Sao Tome and Principe

¶24. (U) The Secretariat reaffirmed its intention to invite STP in May for Completion Point debt treatment. Russia again reported that it had not been able to conclude its bilateral agreement, while

Belgium and Italy indicated minor problems with arrears and a lawsuit. The Secretariat said it would send a reminder to STP on the Russia bilateral. (The U.S. is not a creditor.)

Serbia, Montenegro and Kosovo

¶25. (SBU) PC creditors discussed division of debt between the three countries and a recent email from Serbian Treasurer Dzinic, who stated that all bilateral negotiations were proceeding smoothly. Germany, the Netherlands, Japan, Sweden, and Switzerland all disputed that assertion. The Secretariat agreed to reply to Dzinic, reiterating that division of debt must be made according to the debtor/guarantor principle, unless the creditor is willing to use the final beneficiary principle (as the U.S. has done). Several countries expressed concerns that the final beneficiary approach could set an unhelpful precedent for a future Serbia/Kosovo division. Russia objected even to the name "Kosovo" being listed in the "countries under review" column of the agenda since its status has yet to be determined. The Secretariat will also ask Serbia for permission for creditors to provide loan agreement information to the Kosovar authorities.

Seychelles

¶26. (U) The Secretariat took note of Seychelles' recent Article IV review, which reported strong support for an IMF program. The IMF reported that a mission could go out in July and produce a program for the Board to consider in September. The Secretariat requested an updated data call. (The U.S. is not a creditor.)

Suriname

¶27. (SBU) The Secretariat reported on its request to Suriname to clear all arrears and to provide equal treatment to all creditors. A letter of response from Suriname's Minister of Finance, however, reported that Suriname had already concluded bilateral deals with Germany and Italy and was close to concluding agreements with the

U.S. and Brazil (present as an observer), the only countries to which it owed arrears. Spain said it too had arrears. The U.S. reported technical exchanges on amounts due (approximately USD 26 million), but emphasized there were no negotiations with Suriname. We also expressed the view that even when a Paris Club debt treatment appears unlikely, creditors should coordinate attempts to obtain payments. Brazil also stated it was not negotiating with Suriname.

¶28. (SBU) Germany acknowledged it had concluded an agreement covering USD 5.2 million in short term debts. Italy also acknowledged having concluded an agreement with Suriname last fall and confessed it treated long-term debt on concessional terms. The Secretariat reminded creditors to stick to the Club's rules on

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solidarity and committed to responding to Suriname's letter, reminding it of those rules.

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